

NATIONAL CORN GROWERS ASSOCIATION

Lee Klein
President

HOUSE AGRICULTURE COMMITTEE

April 25, 2001

Thank you, Mr. Chairman, for the opportunity to testify here today about the farm economy and the future of farm policy. My name is Lee Klein and I serve as President of the National Corn Growers Association (NCGA), representing more than 31,000 direct members and the 300,000 corn farmers throughout the nation who make check-off payments each year.

I am joined today by Dee Vaughan from Dumas, Texas, and Brent Porteus of Coshocton, Ohio. Mr. Vaughan serves on NCGA's Board of Directors and is liaison between the Board and our Public Policy Action Team. He grows corn, wheat, sorghum and soybeans in Moore County, located in the northern panhandle. Mr. Porteus is serving as the Chairman of our Public Policy Action Team, which is our internal committee working on farm programs. He farms with his father and brother growing corn, soybeans, wheat and alfalfa in central Ohio. I farm near Battle Creek in northeast Nebraska. My wife and I raise corn, soybeans, rye, alfalfa and hay and we manage a cow/calf operation.

We are proud to represent three very different corn growing regions of the country, yet speak with one voice.

Like you, NCGA has been working diligently to prepare for these farm bill discussions. We took a cue from this very committee and incorporated into our farm bill discovery process a mock Congressional hearing, town hall meetings in over ten states, and held a two-part farm bill school in order to ensure an inclusive, educated, grassroots-oriented farm policy. Most recently, member-states were present in San Antonio, Texas, for the Commodity Classic—which includes our Corn Congress—for the opportunity to present and vote on policy initiatives important to their states.

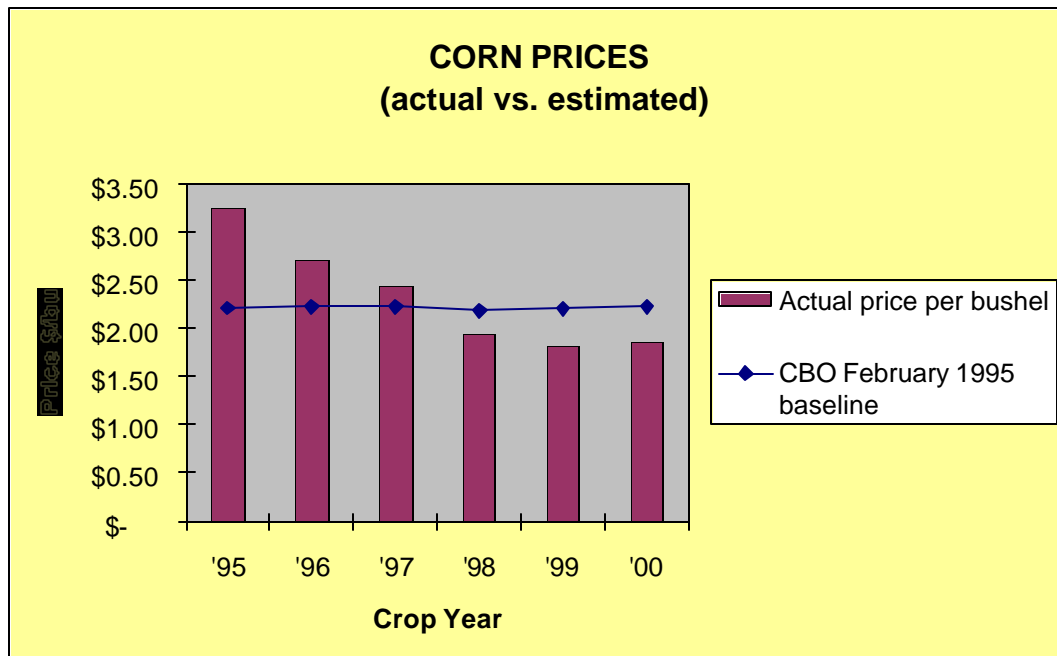
With all this information gathered, with input from all its member-states—what does NCGA want from the next Farm Bill? Simply, our growers want a farm program that ensures America's farmers are globally competitive, market responsive and environmentally responsible. This program must provide producers with access to world markets, access to capital, access to advances in technology and risk management in a sustainable and environmentally sound manner.

To discuss our farm bill approach and perspective, it is important to outline the path the corn industry has taken over the last five years. From a 1995 marketing year level of \$3.25 per bushel, corn prices have significantly declined amid an unprecedented five

years of above-trend yields without widespread production problems in this country or abroad. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 provided the crop production sector with the ability to change commodity mix to respond to the needs and shortages of the market, a provision that has worked very well, but it did not anticipate sustained periods of favorable weather in major grain producing regions and resultant low prices aggravated by world economic challenges and trade distorting policies. Earlier this year, Mr. Keith Collins, Chief Economist with USDA, testified before this committee that another decline is expected this marketing year with corn prices expected to average \$1.70 - \$1.85 per bushel, although the most recent USDA projections peg corn prices at \$1.80 - \$1.90 per bushel.

As we look at where corn prices have been in the last few years, we should note where Congressional Budget Office (CBO) assumptions were predicting prices would be. The graph below demonstrates the disparity between actual corn prices, and estimates from 1995.

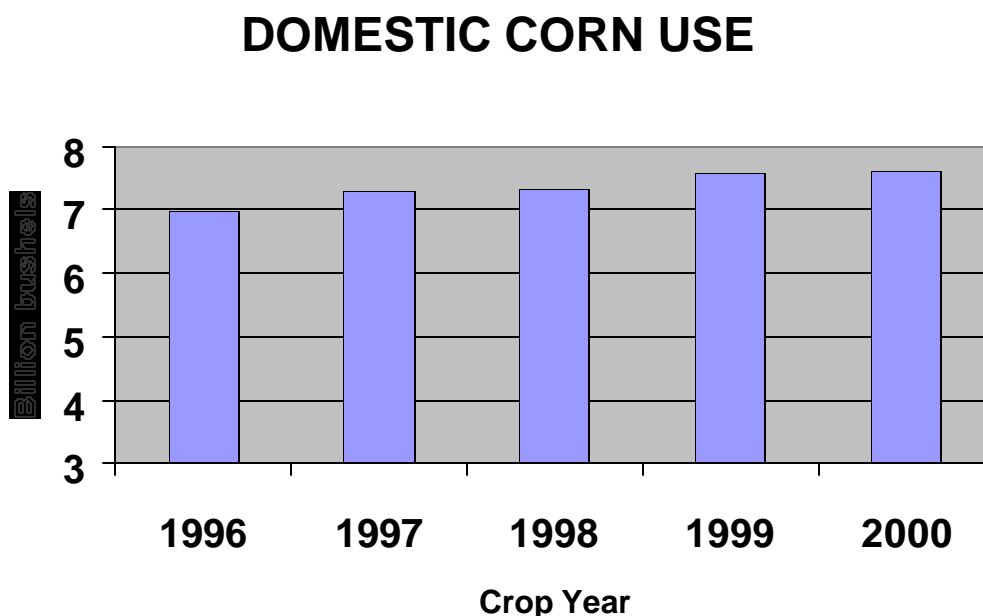
Graph 1.



Corn Use

The market-oriented approach to the 1996 farm bill has allowed U.S. farmers to make production decisions based on their own market and agronomic needs and has allowed them to build demand for corn both here and abroad. And we have done just that. Domestic demand for U.S. corn has increased from almost 7 billion bushels in 1996 to a projected 7.75 billion bushels this marketing year – an increase of almost 11 percent.

Graph 2. Illustrates domestic corn use during the first five years of the FAIR Act.



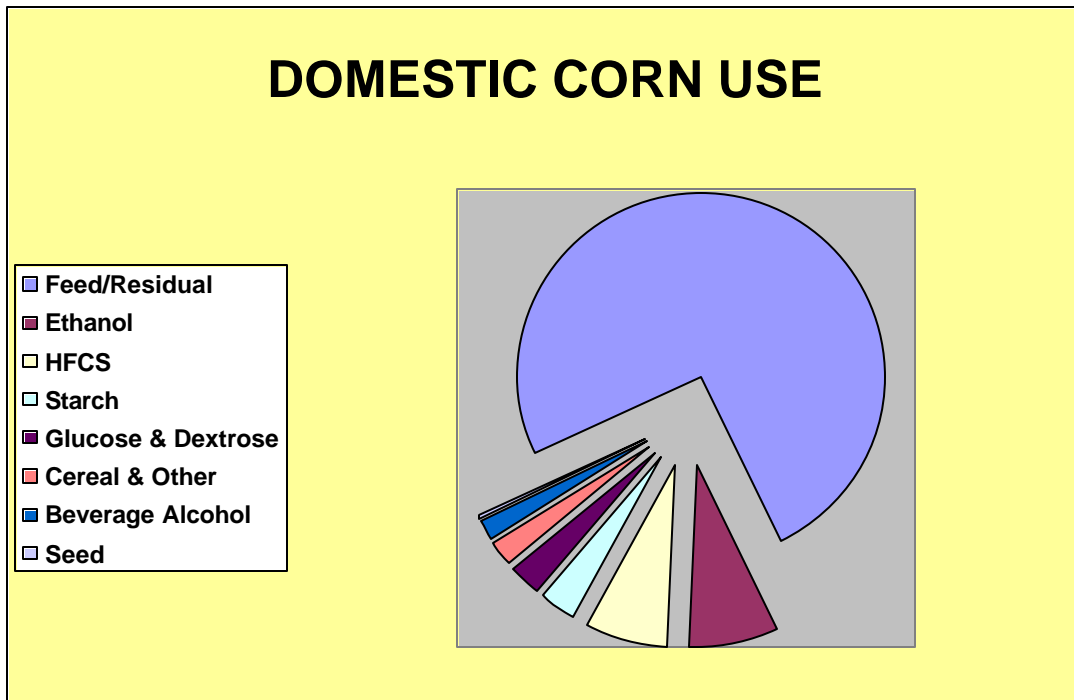
That remarkable domestic demand comes from increases in feed use, fuel use and new food and industrial uses the corn industry has worked to develop. We expect at least an additional one-half billion bushels of domestic demand in the next five years with increased ethanol demand and, more importantly, other new uses. We strongly support the President's \$15 million commitment for research into new uses like bio-based industrial products and improving processing and conversion technologies.

It is NCGA's goal to: develop new uses; to develop and build a renewable products industry with corn as the chief feedstock; to increase utilization of corn; and to increase the opportunity for grower profits. Both public and private sectors must share the task of establishing value-added opportunities and new uses. Through check-off dollars and with the help of valuable federal funds, NCGA is leading the effort into new use research. For example, we are funding research for a degermination process that we hope will enable corn dry grind ethanol facilities to recover oil from the corn germ. If successful, this research will give those plants – many of them farmer-owned cooperatives – an additional revenue stream from the corn oil, which can be marketed in addition to ethanol and distillers grain.

We are also focusing research efforts on new uses for corn. We feel this area holds great potential for all growers in allowing them to add value to the crops from the fields. These projects include turning corn into the more eco-friendly chemical products used in a variety of ways for items such as polymers in plastics, clothing and carpeting. They are also used for other chemicals such as propylene glycol and ethylene glycol that are used in products such as antifreeze, de-icing fluid and health and beauty products.

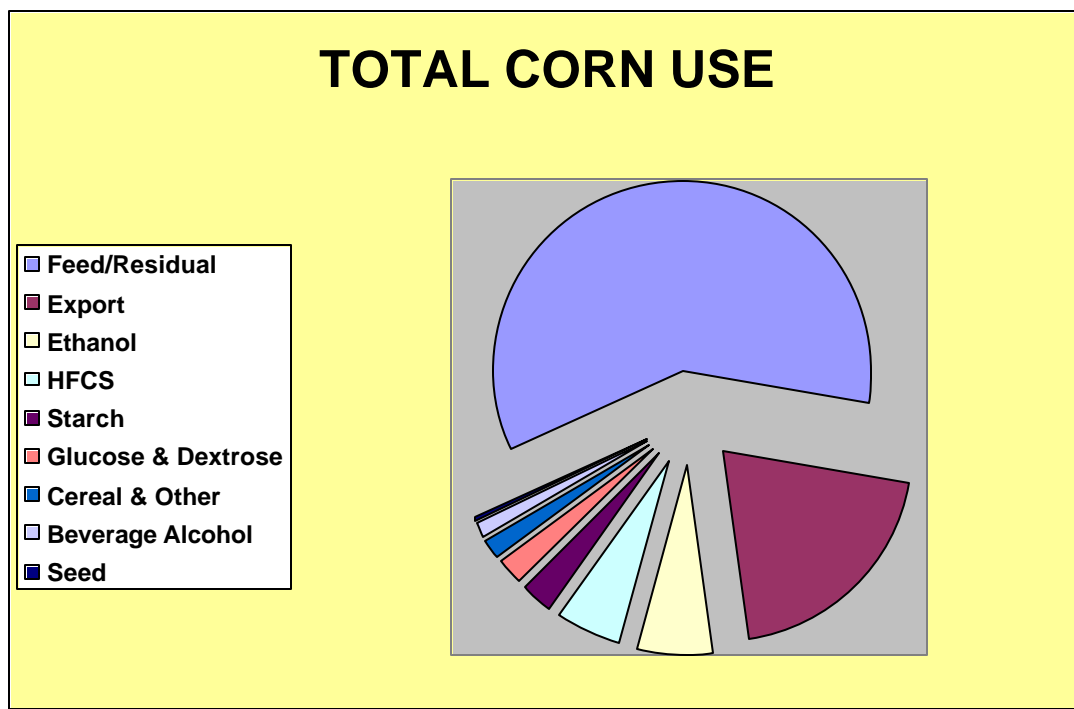
These exciting new uses are overshadowed by feed use, which continues to dominate domestic corn use. The livestock and poultry industries are our biggest and most important customers, using over 75 percent of the 7.75 billion bushels that will be used domestically this marketing year. (See Graph 3). The demand for feed use has been steadily increasing over the last ten years. Since 1990, consumption by livestock has increased from 4.6 billion bushels to 5.8 billion bushels of corn this marketing year.

Graph 3. Represents the corn use for multiple domestic sectors for the 2000 corn crop as projected by USDA.



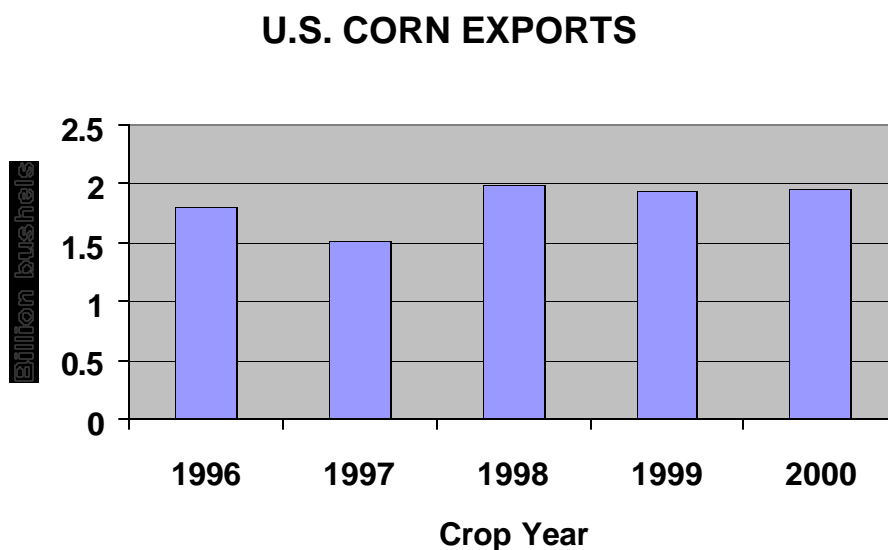
Corn exports add another dimension to the total demand picture for U.S. corn producers.

Graph 4. Shows total corn demand for this marketing year.



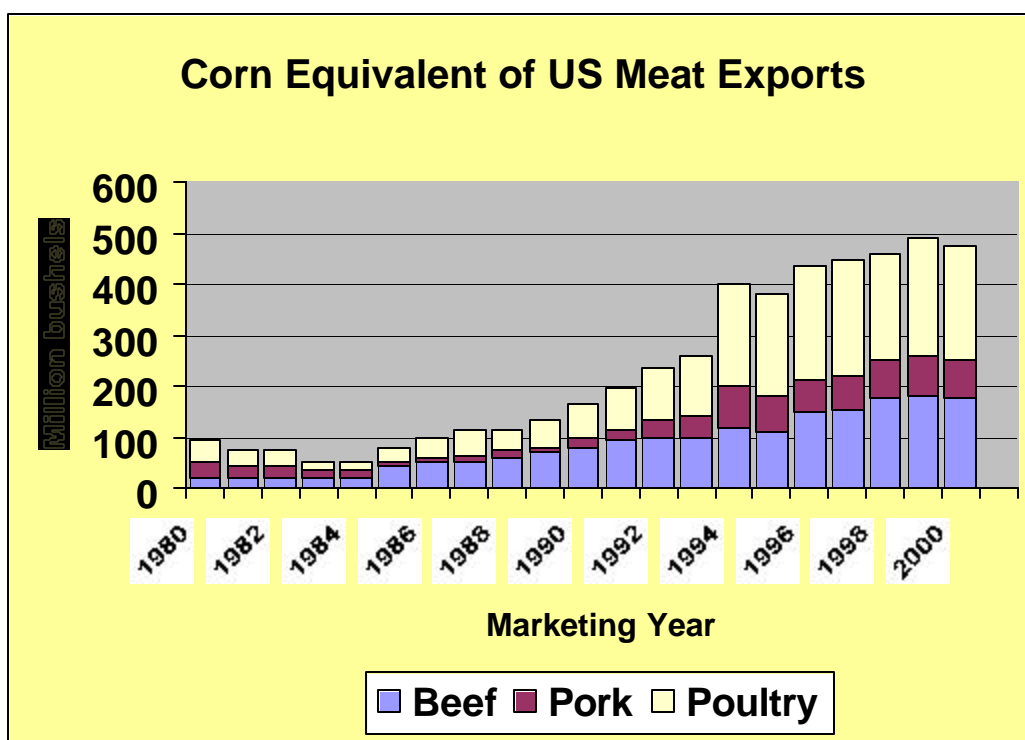
While not as dramatic as the domestic demand picture, the corn export situation is also better than it was in 1996. It now appears that corn exports will fall below the recent high of 1.98 billion bushels during the 1998 marketing year. But at 1.95 billion bushels, corn exports will exceed 1996 levels by 150 million bushels and 1997 levels by almost 450 million bushels.

Graph 5. Illustrates corn exports during the first five years of the FAIR Act.



Fortunately, grain exports are only part of the export picture. We export a significant quantity of corn as value-added meat and poultry products. Graph 6 illustrates the corn equivalent of exports of beef, chicken and pork over the last 20 years. U.S. meat exports are key to corn feed use and soybean crush and to U.S. export competitiveness.

Graph 6.



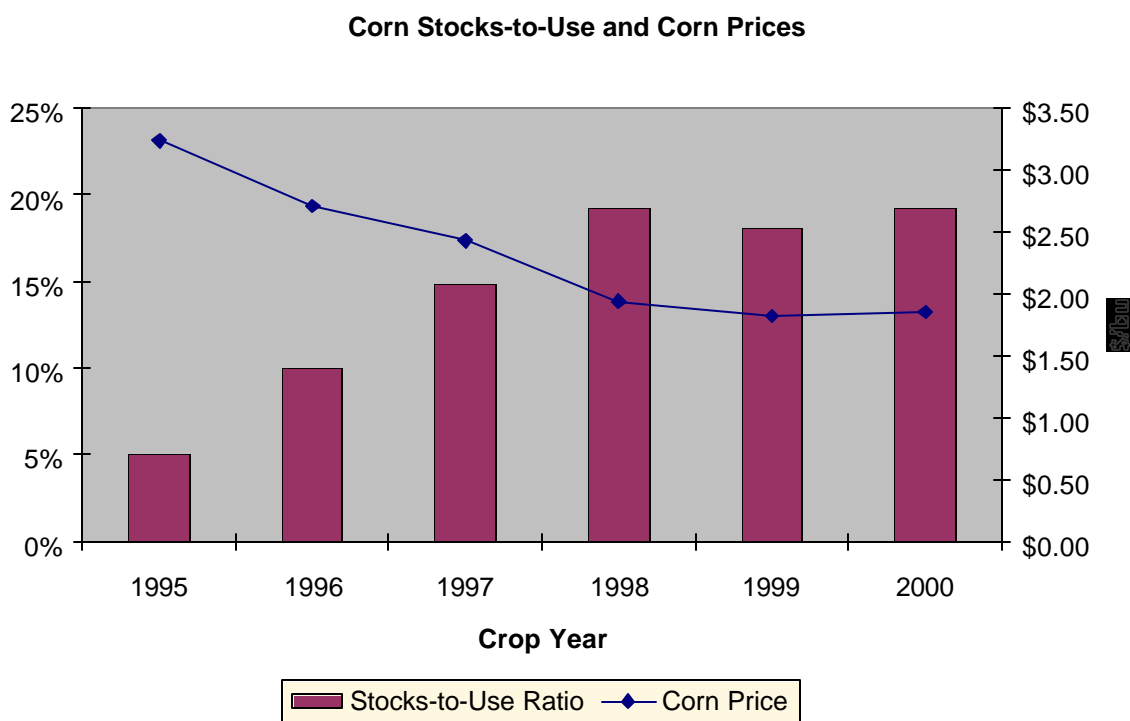
Nonetheless, U.S. farmers have suffered the effects of weak economies abroad, a strong U.S. dollar, trade barriers, unilateral trade sanctions, competition from subsidized exports and international challenges to biotech corn. NCGA will continue to seek stronger export markets by supporting trade liberalization through multilateral negotiations and by aggressively pursuing market opportunities. The Foreign Market Development Cooperator program and Market Access Program are essential tools to increase export demand. As export demand improves, so will corn prices.

Despite growth in both our domestic and export demand, corn farmers, like producers of all commodities, are still faced with lackluster prices. The reason is relatively obvious; our production growth has outpaced the demand growth. Over the past five years U.S. corn farmers have produced an average of more than 9.5 billion bushels per year compared to an average 8.1 billion bushels per year during the life of the 1990 farm bill – an increase of almost 17 percent. Corn planted acres have increased an average 4.5 percent over the average for the previous farm bill. Clearly, U.S. farmers have been

very productive on the land devoted to corn production. Those who advocate supply control through acreage reduction miss the tremendous effect of improved yields.

The consistently high production numbers have led to increasing stocks. The current farm policy was enacted during the 1995-96 marketing year. That year, the corn stocks-to-use ratio fell to a dangerously low 5 percent. We have rebuilt stocks, and now we have too much corn. Today's low prices reflect the significantly higher stocks-to-use ratio.

Graph 7.



To NCGA this shows that our next generation of farm policy needs a counter-cyclical component that is heavily oriented at answering the profitability needs of basic commodity farm income. As the preceding charts have shown farm income shortfalls will not be resolved by one easy policy change like boosting exports or artificially shorting the market with a set-aside. We need a complete package that provides farmers opportunities in the market place with minimal interference in production decisions and that includes a safety net against those economic forces that are beyond producers' control. We believe the correct counter cyclical policy can do that.

Lessons from the FAIR Act

What have we learned? We've learned that at the heart of the 1996 measure lays a provision that we all fought so hard for and which we will continue to fight for – planting flexibility. This market-oriented approach to farm policy allows U.S. farmers to bring production decisions home and grow for their market. That flexibility is something America's farmers are not willing to give up and it is an important tool for responding to market and consumer needs. Clearly, this approach is better than market-distorting policies that favor our global competitors.

The bill also provided for fixed declining payments. These payments helped sustain most growers these past four years and, without them, as an auctioneer, I would have sold a lot more land in Nebraska in the last five years.

However, these payments, highest in the early years coinciding with high commodity prices, were not without their heartburn to a great many growers in the countryside. Direct government payments of \$.36 per bushel at a time when corn prices averaged \$2.71 per bushel had the effect of accelerating a trend of increasing land values.

High land prices are an advantage for landowners and local taxing districts, crucial to the collateral base of most farm real estate and operating loans but a serious challenge to those renting land and facing higher rental costs. Add on market loss assistance payments and many growers saw their rental rates skyrocket. NCGA represents farmers in each of these situations. We support the continuation of production flexibility contracts, however, we urge Congress and the agriculture community to work together to identify policies that support all growers – no matter what their land assets may or may not be – and evaluate policy options with the intent of minimizing any distortion in land costs. I will speak more of this when we discuss our proposal for a counter-cyclical policy option.

The marketing assistance loan program, which we believe to be counter-cyclical, has been a valuable market-clearing tool for U.S. growers. At the time the 1996 FAIR Act was enacted, the extent to which this tool would be used was severely underestimated. However, record harvests here and abroad, a strong dollar and economic problems in our export markets resulted in U.S. farmers facing an unexpected sharp decline in major crop prices. In 1998, Loan Deficiency Payments (LDP) and marketing loan gain outlays exceeded \$3 billion, \$5 billion for 1999 crops and in excess of \$6.5 billion for 2000 crops, thus far.

The marketing loan has also provided our biggest customer, the livestock industry, with affordable, abundant feed. Each year, growers have been able to capitalize on the benefits of the marketing assistance loan program more and more. They have become familiar with the mechanics of the program and have learned to capture their maximum LDPs.

However, during harvest, our staff (like your congressional staff) fields dozens of calls from farmers all over the country with concerns over the way the program is being implemented. Last fall, we received repeated questions from growers who were unable to get their local loan rate because the posted county price was consistently above the local cash price. For a variety of reasons, storage was not an option for these growers and their return per bushel was as much as 40 cents below their county loan rate in Texas, 20 cents in Missouri, 18 cents in Virginia, and 15 cents in North Dakota. In 1999 testimony before this Committee, Secretary Dan Glickman emphasized this problem when he said, "This problem of county loan rates being misaligned relative to local market prices has at least a 30-year history."

Growers also expressed concern regarding the inequity of LDP rates across state and county lines. This problem leads growers to consider delivering their commodities to counties outside their normal marketing channels just to get higher government payments rather than maximizing returns from the market. This disparity in rates results from a system where county loan rates are fixed for an entire year's crop, but loan repayment rates are subject to change, based on dynamic market price relationships as reflected in the daily (or weekly) Posted County Price (PCPs).

The PCP system was designed to reflect local county prices by adjusting terminal prices by means of predetermined differentials. The differentials are calculated by comparing local prices to the terminal price, but because this calculation uses the average annual difference, it does not capture the seasonal basis deviation which can result in a PCP significantly higher or lower than the local cash price. During the year, as regional supply and demand and transportation costs vary, PCPs can rise above local cash prices leading to potential forfeitures and grower frustration, or PCPs can fall below local market prices resulting in large government outlays. Second, because local PCPs tend to reflect price trends in just two major terminal markets, the system provides price estimates related to regions of the nation. Often, where two regions or two major markets meet, state and even county LDP rates can be significantly different across lines. NCGA can offer many examples of these problems in the current marketing year and will be happy to provide more information at the committee's request.

On many occasions, we have urged USDA to implement the marketing assistance loan program in a manner that assures all producers, at a minimum, the local loan rate for all of their eligible corn and that minimizes problems across political boundaries. Although the Farm Service Agency has been able to address some of the concerns, the problems persist. Like Congress and other commodity associations, NCGA has vigorously debated the issue of raising the corn loan rate in an effort to improve the relationship with other commodity loan rates. Our official policy reads, "NCGA will oppose any decrease in the corn loan rate"—reflecting our internal conflict with this issue. We are aware that the current formula allows for a decrease in all loan rates but adamantly oppose such a move. The current national loan rate, set at a national average of \$1.89 per bushel, provides corn growers with a minimum price protection.

NCGA is very conscious of concerns about raising the loan rate, as well. The primary concern revolves around the increase in budget exposure compared to recent assistance provided to farmers. It is estimated that raising the corn loan rate would cost approximately \$90 million for each one-cent increase. If Congress were to “rebalance” the corn loan rate at, for example, \$2.10 as has been suggested, the budget impact would be \$1.8 billion even though the CBO baseline assumes a corn price above \$2.10 for every year in the baseline.

Raising the corn loan rate must also be balanced against our obligations in the World Trade Organization (WTO). Current loan deficiency payments are included in the United States’ Aggregate Measurement of Support and are subject to our domestic support reduction commitments. These so-called “amber box” payments include support that is coupled to current prices or production along with crop insurance subsidies and price support programs like the sugar, dairy and peanuts program. The United States has agreed to reduce domestic support to agricultural producers by 20 percent from our base level of support. This commitment will leave the United States with approximately \$19 billion at the end of the implementation period. In addition, the United States has called for further reductions in trade-distorting domestic support in future agricultural negotiations. We cannot proceed as though our domestic farm programs are without international consequences.

Last winter, corn producers in Minnesota, North Dakota and South Dakota learned that even when spending associated with the marketing assistance loan program is within our WTO commitment, the spending can have adverse consequences. Last November, Canada’s Custom and Revenue Agency imposed a provisional duty on U.S. corn imported into western Canada. The duty included an amount calculated to reflect the producer benefits from the marketing assistance loan program. Ultimately, the Canadian International Trade Tribunal determined that corn imports from the United States did not cause injury to producers in western Canada. Although we did emerge victorious in this situation, there are threats of other actions based on the LDP program to come.

Most importantly, NCGA believes that merely rebalancing the loan rate levels will not address the underlying dissatisfaction with loan rates across county and state lines. In fact, rebalancing may exacerbate this and the previously outlined concerns with the marketing loan. However, should Congress choose to retain the marketing loan NCGA would offer a few options to make the marketing assistance loan program work more equitably for U.S. growers. They include:

- Allowing a grower to determine their LDP rate on any or all eligible commodities after harvest or beginning September 1.
- Continued LDP eligibility for silage, high moisture, mycotoxin-infected and damaged corn.
- Revising the rules to give a producer the choice to have their LDP set in the county grown or marketed.
- Directing USDA to use the Posted County Price as the average of the two adjusted terminal price for the county.

It's important to note that although these provisions may make the system more equitable and workable, even if all of them were implemented—that phone (yours and mine) would still be ringing with problems regarding this program. Particularly since the county-loan rate formula is 30 years old – older than either of my two daughters.

Aside from implementation problems, we have identified another crack in the '96 measure. The 1996 law does not protect those who may have suffered a natural weather disaster and do not have a crop from which to collect an LDP. Yes, these growers may have crop insurance, but they still face a significant shortfall in income when they have far fewer bushels on which to collect an LDP and are facing such extremely low prices for the limited bushels that they have produced.

In hindsight, the 1996 FAIR Act provided farmers with many of the tools we were looking for, but it was shortsighted in its ability to provide a safety net that would be sufficient in times of sustained low prices. It does not include a provision to allow producers to weather, for example, the Asian flu that seemed to infect many of our international customers. Now, we can only watch helplessly as our biggest customer – Japan – becomes the bug's latest victim. After three years of low prices and needed bailouts by the U.S. Congress totaling over \$19 billion, we now know that an additional component is vitally needed. Improving that safety net for future farm policy while maintaining the best of freedom-to-farm is at the core of our presentation today.

As we debate how to service all growers' needs, it is easy to first look at something we are familiar with – expanding the current marketing assistance loan program with the suggestions we have provided and more. However, any further contribution into the amber box could be costly in the long run. As previously mentioned, the United States cannot exceed \$19 billion with this form of government assistance and committed to decrease expenditures in the future. For 2000, the United States spent approximately \$17.5 billion in amber box spending. If the loan program is made more generous for producers, it will likely cause the United States to exceed our domestic support commitments and set us up to face unacceptable consequences within the WTO.

After weighing all of these needs and concerns, including addressing the growers falling through the “crack” of natural disaster, NCGA has surfaced and is committed to a comprehensive counter-cyclical income support proposal. This proposal may address the inequities in the current marketing assistance loan program, puts U.S. agricultural supports in the more favorable green box and is fiducially appropriate and responsible.

The counter-cyclical program that we have developed replaces the current marketing assistance loan program. We have worked with economists to flesh out the total impact of this type of program on the corn industry as well as other commodities and are very confident and pleased with the results.

At our most recent policy setting session, Corn Congress, our delegate body developed the framework for this counter-cyclical program. They required that any program:

“works with production flexibility contract payments; establishes a target income for corn and other individual commodities which is increased annually; establishes individual eligibility based on more recent production history; replaces the market assistance loan program with a recourse loan; and maintains the positive market clearing functions of the current marketing loan program.”

Our Corn Board reaffirmed this direction last week in preparation for this testimony.

The goal of this proposal is to provide growers financial assistance when it is needed and promote policy that is less production and trade distorting.

Our proposal establishes an annual target income for corn and other loan-eligible commodities. The target income is based on the average crop value during the base period and incorporates producer benefits from the marketing loan program and the market loss assistance payments. This base period average income is adjusted for each year of the farm bill by a factor that reflects projected production increases. This adjustment is necessary to ensure that producers have adequate income protection as crop yields increase.

National Target Income NCGA Proposal

For each loan-eligible commodity

$$\left(\begin{array}{|c|} \hline \text{Crop} \\ \text{Market} \\ \text{Income} \\ \hline (1996-2000) \\ \hline \end{array} \right) + \left(\begin{array}{|c|} \hline \text{Marketing} \\ \text{Loan} \\ \text{Benefits} \\ \hline (1996-2000) \\ \hline \end{array} \right) + \left(\begin{array}{|c|} \hline \text{Market} \\ \text{Loss} \\ \text{Assistance} \\ \text{Payments} \\ \hline \end{array} \right) \times 5 \times \text{adj} = \left(\begin{array}{|c|} \hline \text{National} \\ \text{Target} \\ \text{Income} \\ \hline \end{array} \right)$$

The adjustment factor to determine the national target income for each commodity is calculated by dividing the production – as projected by CBO - by the average production during the base period. The factor will “lock in” CBO assumptions for budget growth assumed for the marketing assistance loan programs due to production increases.

In addition to a counter-cyclical program, our proposal assumes the continuation of Production Flexibility Contract (PFC) payments at 2002 levels for the life of the new farm bill. Consequently, the PFC payments are not included in target income.

Chart A. Shows the National Target Income for the loan-eligible crops including the yield adjustment.

National Target Income							
(millions)							
	2002	2003	2004	2005	2006	2007	2008
Corn	\$ 25,930	\$ 26,424	\$ 26,918	\$ 27,412	\$ 27,659	\$ 27,906	\$ 28,399
Sorghum	\$ 1,030	\$ 1,078	\$ 1,125	\$ 1,173	\$ 1,204	\$ 1,268	\$ 1,284
Barley	\$ 873	\$ 921	\$ 968	\$ 1,016	\$ 1,025	\$ 1,035	\$ 1,044
Oats	\$ 370	\$ 370	\$ 370	\$ 370	\$ 370	\$ 367	\$ 359
Wheat	\$ 9,279	\$ 9,474	\$ 9,669	\$ 9,865	\$ 9,962	\$ 10,060	\$ 10,158
Soybeans	\$ 17,981	\$ 18,144	\$ 18,308	\$ 18,471	\$ 18,635	\$ 18,962	\$ 19,289
Cotton	\$ 7,003	\$ 7,003	\$ 7,003	\$ 7,070	\$ 7,070	\$ 7,070	\$ 7,070
Rice	\$ 1,966	\$ 1,966	\$ 1,947	\$ 1,947	\$ 1,947	\$ 1,947	\$ 1,928

By establishing a base period, we intend to ensure that our counter-cyclical program is not trade distorting.

Under this proposal, a producer would sign up by providing acreage data and yield data for his or her operation during the base period; we suggest the 1996 through 2000 crop years to reflect the experience of the first five years of the current farm program. We recognize that it will be necessary to adjust production for producers who suffered major crop losses during one or more of those years. We would suggest a provision to allow producers in declared disaster areas to substitute crop insurance transition yields (T-yields) for purposes of calculating eligible payment units. Much of this data may already be available at the local FSA office or with the producer's crop insurance agent. This would allow one to update bases and yields for the counter-cyclical program to a more recent, practice-reflective, yield and planting level. A grower's portion of the corn counter-cyclical payment would then be based on their eligible units from a five-year average of acreage and yields (last five years of production [bushel basis] / 5 = average).

Producer Eligible Payment Units NCGA Proposal

For each loan-eligible commodity

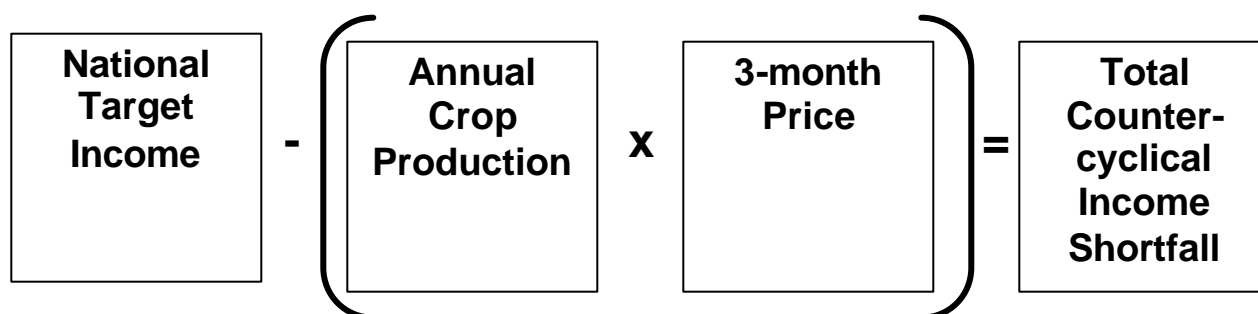
Actual Crop Production (1996-2000)	$\div 5 =$	Production Base for Producer share of National Target Income
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NCGA anticipates production adjustments for producers who sustained crop losses during the base period.

Each year, crop income will be calculated using USDA production estimates and the average price during the first 3 months of each commodity's marketing year. For corn and other commodities with a marketing year that begins on September 1, the third month price will be the preliminary estimate as determined by the National Agricultural Statistics Service. A 3-month price allows payments to be calculated and made when they are most needed by farmers. We would anticipate that this would allow farmers the option of receiving these payments either prior to or after December 31 or each year for optimal tax management. Whenever the national crop income is less than the target income, producers will receive a payment based on their eligible bushels.

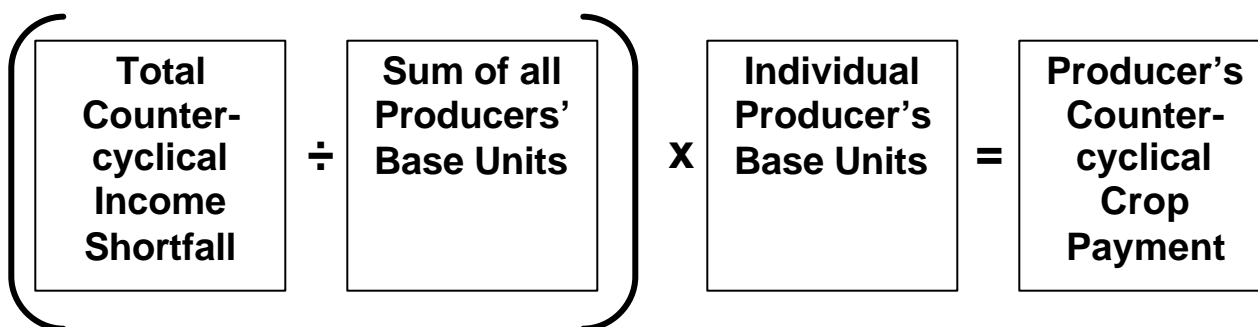
Income Shortfall Calculation NCGA Proposal

For each loan-eligible commodity



Producer Payment NCGA Proposal

For each loan-eligible commodity



We think a farm program with this structure has many benefits: it eliminates the 30-year problem of inequity within loan rates, it's non-production distorting, non-trade distorting, provides payments when needed to those who need it, and pulls valuable and needed funds from the amber box into one considered more favorable.

For the purposes of our presentation, we assumed a five-year farm bill. Further, we assume continuation of PFC payments at the 2002 levels. As well as no payment limits on the counter-cyclical payments. Since the NCGA proposal merges several previous programs with varying payment limit levels including a program that utilizes certificates, payment limits would effectively neuter this option from serious consideration.

The following chart [Chart B] demonstrates how our proposal would fare compared to a CBO-like baseline. The payment also includes production flexibility contract payments at the 2002 level.

I should note that AgriLogic, Inc. located at Texas A&M University prepared the economic analysis in our presentation. AgriLogic has prepared a “CBO-like baseline” which is used as a reference point for our proposal.

Chart B.

CCC Net Outlays by Commodity (estimated millions)

		2002	2003	2004	2005	2006	2007	2008	Total	Gain /Loss
Corn	CBO-like	1,853	1,853	1,853	1,853	1,853	1,853	1,853	12,971	7,720
	NCGA	3,538	3,118	3,028	3,760	3,531	1,863	1,853	20,691	
Sorghum	CBO-like	205	205	205	205	205	205	205	1,435	0
	NCGA	205	205	205	205	205	205	205	1,435	
Barley	CBO-like	87	87	87	87	87	87	87	609	61
	NCGA	87	87	87	120	115	87	87	670	
Oats	CBO-like	6	6	6	6	6	6	6	42	0
	NCGA	6	6	6	6	6	6	6	42	
Wheat	CBO-like	1,053	1,053	1,053	1,053	1,053	1,053	1,053	7,371	6,761
	NCGA	2,399	2,167	2,186	2,061	1,992	1,740	1,587	14,132	
Soybeans	CBO-like	2,985	3,091	2,795	2,140	718	0	0	11,729	9,918
	NCGA	4,714	4,784	4,509	3,333	1,710	1,295	1,298	21,647	
Cotton	CBO-like	572	466	466	466	466	496	507	3,439	9,617
	NCGA	2,097	1,847	1,870	1,892	1,847	1,729	1,704	13,056	
Rice	CBO-like	814	757	704	699	664	673	697	5,008	2,008
	NCGA	1,135	1,070	998	978	939	946	950	7,016	
Total/yr	CBO-like	7,574	7,518	7,169	6,509	5,052	4,373	4,408	42,604	36,085
	NCGA	14,181	13,284	12,889	12,359	10,345	7,941	7,690	78,688	
Increase Over CBO-like Baseline		6,607	5,766	5,720	5,850	5,293	3,568	3,282	36,085	

Note: production flexibility contract payments are included in both the CBO-like and NCGA calculations.

As the chart demonstrates, this program will provide \$31 billion more in assistance over that seven-year period than current CBO-like baseline estimates. That is an average of \$5.2 billion more per year, without the necessitation for ad hoc disaster assistance.

We clearly demonstrate a need for an increase in the agricultural budget baseline. This need is justified and, when you look at this program, maybe a better use of taxpayer dollars in the long run.

The December 2000 CBO baseline projects corn prices steadily increasing over the next 10 years. It estimates an annual average of \$2.18 per bushel in the 2001 marketing year, \$2.37 in 2003, and \$2.40 in 2005. These higher projected prices eliminate marketing assistance loan program payments from baseline spending. (Actually, the CBO baseline projects significant export growth). Although there are no loan deficiency payments or marketing loan gains, nearly \$10 billion dollars remains in the amber box. One should also note that implementation of the NCGA counter-cyclical plan shows no significant changes in price for the respective commodities. As such, we do not anticipate any significant impact on livestock or industrial use on supply of corn.

When we use a stochastic model to evaluate the same farm policy, we see production and price changes that are more reflective of real-world dynamics (refer to Graph 1). Under this type of baseline, not surprisingly, the price projections for corn and other commodities are not as rosy as in the CBO-like baseline. For the 2001 marketing year, this model estimates an average annual corn price of \$1.86 per bushel, \$2.01 in 2003 and an average of \$2.24 per bushel in 2005.

We believe that our counter-cyclical proposal is the safety net that eluded us in 1996. We asked AgriLogic to run this counter-cyclical program on both a CBO-like baseline and AgriLogic's stochastic baseline. Using a stochastic model has allowed us to analyze this proposal under alternative conditions. This model has allowed us to look at the sensitivity of our proposal to ensure that we have not developed a farm policy proposal that is insensitive to changing conditions in weather, production, macroeconomic policy and foreign trade policies.

We ran the following scenarios under both the deterministic and stochastic economic models:

- CBO-like baseline with the Marketing Deficiency Act (see Chart B).
- CBO-like baseline with the NCGA counter-cyclical program with 1986-1997 yields
- CBO-like baseline with the NCGA counter-cyclical program with historical production and prices
- Agrilogic baseline with the NCGA counter-cyclical program
- Agrilogic baseline with the NCGA counter-cyclical program with 1986-1997 yields
- Agrilogic baseline with the NCGA counter-cyclical program with historical production and prices

Under all of these conditions, the economic model demonstrates that this program will provide assistance when needed, without further Congressional action.

Also important to note, that when AgriLogic's economists applied NCGA's counter-cyclical program to a CBO-like baseline, WTO commitments are much more favorable. Under this counter-cyclical program, over \$3 billion in grower support is transferred into the more favorable green box from the amber box. Because the CBO baseline does not anticipate substantial marketing assistance loan program outlays, a CBO-like baseline will often not trigger a counter-cyclical payment, either.

Access to Capital

While the counter-cyclical proposal will assure grower income in times of low prices in amounts comparable to current marketing loan benefits, it will not address our goal of a policy that provides access to capital – which is why we propose recourse loans as part of this program. Recourse loans will provide producers access to capital without impacting production decisions. Since a producer will be required to repay the loan plus interest at the end of the 9-month loan period, we view this as only assisting with access to capital for short-term cash flow.

Access by American farmers to reliable financing is one of the biggest benefits to consider in the context of a counter-cyclical income support program. An estimated 75-80 percent of farm borrowing is from commercial lenders. All commercial financial institutions today are subject to bank regulators and the financial rating system known as "CAMELS." CAMELS also apply to all federal regulatory institutions, including FCA, the Federal Reserve, FDIC, and the Office of Thrift Supervision. CAMELS determine ratings and capital ratios based on: capital adequacy, asset quality, management of risk, earnings, liquidity and sensitivity to market risk.

A farmer's capacity to borrow is very dependent on the confidence that commercial lenders have in the farm's ability to generate cash flow. When farmers face crop failures or depressed market conditions, bankers are reluctant to lend because the higher the non-accruals, the higher the required deposit insurance premiums charged to the bank, and the larger required loan loss reserve required.

Lending officers consider two major issues when they analyze a farm loan: Does it cash flow? And what is the asset quality?

Almost all agricultural/farm loans are fully collateralized. However, uncertain cash flow can be a major impediment to assessing farm-operating loans. Predictable farm program payments, including Federal crop insurance coverage, provide some protection. Ad hoc disaster payments can provide a reactive response to unpredictable weather or market crises; however, by being "ad hoc," they have no ability to provide farmers with an assured guarantee of cash flow to use in assessing annual operating loans. We believe that this counter-cyclical assistance program will predictably replace reactive, politically negotiated ad hoc financial support. It would be in place and fully operational based on transparent program requirements that provide assistance when commodity prices are low. In a sense, this proposal can serve as a type of loan guarantee when farmers are seeking commercial borrowing.

A counter-cyclical program strengthens the farm safety net by providing a more predictable level of income. This program has two roles. It serves as the safety net with crop insurance that facilitates the ability of farmers to effectively manage their individual annual production risks in the private sector, and it provides a safety net to the equity base of U.S. farm production in a cost-effective private/public partnership that

maintains the soundness of the agricultural production system for the benefit of U.S. consumers and the national economy.

This program also allows farmers to look to the future and provides them assistance as they make the transition from number 2 yellow corn. Many farmers have been anxious to plant for niche markets with specialty crops. However, a 7-10% yield reduction, which is common with specialty corn hybrids, would mean fewer bushels eligible for the current marketing loan. If the grower's contract is based on market prices for dent corn, the contract would have to be generous enough to compensate for the forgone government revenue. This counter-cyclical program will allow farmers to meet the demands of their market – plant a specialty crop – without sacrificing income or income protection based on current yields.

A counter-cyclical program such as this has another added benefit, as well. It promotes good stewardship of the land and gives producers a tool to alleviate the strain of high fuel inputs. The decoupled payments would allow a farmer to practice good stewardship or respond to high input costs, without concern of losing monetary benefits in times of low prices

Designing a Counter-cyclical Policy that is WTO Compliant

The WTO rules on agricultural domestic support provide that “decoupled income support” payments made by governments to producers are not subject to reduction commitments as long as those payments are not tied to current prices, to current production or to current factors of production. In other words, an income support payment program that is carefully designed so that it does not induce production or distort trade can be considered to fall, in WTO parlance, in the “Green Box.”

We have carefully designed our proposal so that it meets the criteria set forth under paragraph 6 of Annex 2 of the WTO Agreement on Agriculture. The WTO rules in this area appear to allow some latitude in designing the program. Payment eligibility may be determined on “clearly defined criteria such as income, status as a producer or landowner, factor use or production in a defined and fixed based period.” Our proposal is to base the program on sector income in a defined and fixed base period – i.e., 1996-2000. Payments would be made to producers not based on what they currently grow, but on what they grew during a recent and fixed historic period. Our proposal is modest – simply to ensure that producer income is supported to the “average” level actually experienced during that historic period.

The rules expressly exclude payments made on current prices, current type or level of production, or current factors of production; our proposal avoids linkage to – is “decoupled” from – any of these factors. Because income support would be decoupled from current prices and from current production, producers will have every incentive to decide what to grow, and how much to grow, based on current market conditions. Finally, the rules stipulate that no current production can be required to receive a payment, and our proposal meets that requirement also. For those members who are

interested, we have provided a more detailed analysis of the legal and policy issues presented by the “decoupled income support” provisions of the WTO rules in Attachment 1 to our written submission.

In summary, you might ask, why would we consider eliminating a program -- the marketing assistance loan program -- that, despite its shortcomings, has worked so well for so many producers? Again, we have concerns about the program’s placement within the amber box at the WTO. Further, we are hoping to address the regional disparity of the current marketing loan program, and we are looking for a program that provides assistance in difficult times while not influencing planting and production decisions. This program would transform the current marketing assistance loan and emergency assistance into a counter-cyclical program that provides comparable benefit to growers, is commodity specific in market responsiveness, and moves much of our “at-risk” amber box support into a WTO-compliant status, while not distorting market signals.

Value Added and Ethanol

NCGA believes that a successful federal farm program has many facets. While the commodity title of the farm bill provides the most direct assistance to today’s producers, we feel strongly that we must work more closely with the federal government to implement programs that ensure a strong rural America.

The economies of rural America are directly tied to the success of production agriculture. While the rest of this country’s economy has been booming until recently, rural America still severely lags behind. Population, income and opportunity do not grow at the same rates as in the urban areas where we live. However, we do expect the same opportunity to lure businesses into our areas so that our young people will have a reasonable chance at building successful lives.

In order to do that, rural areas need to provide a clean water supply, safe roads and bridges, access to high-speed technology, access to education, access to modern health care and farmer-owned, value-added opportunities for its remaining residents. To lure in new businesses, these areas need federal tax incentives, an adequate supply of employees and adequate, modernized infrastructure systems.

Since 1995, rural populations have been steadily decreasing while metro growth has been increasing. According to USDA’s Economic Research Service, the downturn corresponds with a drop in rural employment growth and a boom in the metro economy. Counties dependent on mining and farming had the greatest relative fall in their pace of growth. The number of total rural counties with decreasing populations jumped from 600 in 1990-1995 to 855 in 1995-1999.

It will take more than just USDA’s involvement and support in reinvigorating rural America. We need the assistance of all sectors of the Administration if we are going to really improve small communities. NCGA is committed to investigating and pursuing all

avenues of assistance. Improving the living conditions in rural America is not an issue of concern solely for agriculture – it is key to the success of all America.

Ethanol continues to be a major focus of NCGA policy and research activities. Thousands of farmers are now invested in cooperatives that produce 40% of the 1.6 billion gallons of ethanol made in 2000 from 600 million bushels of corn. Moreover, there are dozens more ethanol projects in various stages of development throughout the Corn Belt that are attracting additional farmer-investors. Ethanol is simply the biggest value-added success story in agriculture today.

Last year, ethanol production utilized about 600 million bushels of corn, or about 6.5% of the crop. Corn demand created by ethanol kept valuable farmland resources in production, adding as much as \$3 billion to the income of our corn farmers. While ethanol is an unqualified success today, our members continue to be concerned about the future of the industry and our ability to attract support for ethanol and other renewable fuels as part of the Administration's energy policy.

There will be energy legislation offered in the 107th Congress. Bills have been introduced and the White House is expected to release the outlines of its energy strategy in the near future. The very first item on our ethanol/energy agenda for the 107th Congress is to make renewables like ethanol and biodiesel play a significant role in the energy bill. This is critically important for the future of farmers and rural communities because of the new economic opportunities that an expanding renewable energy industry will provide.

While we strongly support the development of renewable energy across the nation, we also support working within the current regulatory framework to provide refiners and blenders of gasoline and diesel fuel with the greatest possible flexibility so that supplies of fuel that are critical to the economic health of the nation continue to expand. These measures would include – but are not limited to – regulations that recognize the benefits of reducing carbon monoxide emissions, or the greater flexibility that comes with allowing refiners to use full oxygen averaging in their reformulated gasoline production.

We also support maintaining the environmental benefits of the fuel programs that affect every gallon of gasoline consumed in the United States today. Any environmental benefits that may be achieved by using renewable fuels should be additional to the benefits already accounted for in these programs.

Biofuels like ethanol and biodiesel provide energy, economic, environmental and security benefits. For these reasons, we believe these products should have assessed tax rates that promote market acceptance. Ethanol and biodiesel production facilities that are farmer-owned add value to agricultural commodities and economic opportunity in rural America. Tax rates and benefits for these facilities should also be encouraged. We especially support the changes in the Small Ethanol Producer Tax Credit that will make it available to more types of cooperative business structures than is currently the case.

We support the newly established CCC program that is part of the USDA biofuels initiative. This program could be responsible for adding more than 245 million gallons of new ethanol production this year. And by reducing the cost of that production, the program increases energy supplies at a lower cost while creating additional demand for farm commodities. This limits budget exposure from loan deficiency payments and provides overall savings in government outlays.

Finally, the future of the ethanol industry rides on decisions that are being made regarding California's request for a waiver from the reformulated gasoline oxygen requirement. No single action could be more devastating to the ethanol industry than action by the Administration to grant the waiver. The fact is that there are now sufficient ethanol supplies to meet the demands of the California market. California would need about 600 million gallons of ethanol annually to meet the total demand for oxygenates in the state under the current reformulated gasoline requirements. The ethanol industry produces in excess of 1.6 billion gallons in 2000 and we believe the industry may approach 2 billion gallons of production in 2001. However, the uncertainty associated with the proposed California waiver of the oxygenate requirement has slowed investment in new plants and equipment from levels we would expect if there were no controversy over the waiver. That is why the NCGA and many other farm organizations have been adamant that no waivers of the reformulated gasoline oxygen requirement should be issued. If no waiver is issued and the gasoline additive MTBE is removed from gasoline and replaced with ethanol, the USDA projects an increase in net farm income over the next 10 years of \$12 billion, employment would increase by 13,000 jobs, and our balance of trade would improve by \$1.3 billion. And this is only the beginning, because ethanol is a real-life model for value-added business opportunities in agriculture.

Ethanol has been an outstanding value-added success for U.S. corn farmers, but it needs to be pushed along further. We would like to expand the role of ethanol in the nation's fuel supply and we support a comprehensive energy strategy that includes the expanded use of renewable fuels like ethanol. We also hope to continue to work with other Departments and Agencies to jump-start the commercial production of many of the products being researched that were mentioned earlier.

Research

While many federal agricultural programs are important to the nation's corn growers, the NCGA believes that the future of the corn industry is written in corn's genetic code and that plant genomics will give us the fundamental information necessary to revolutionize American agriculture. Plant genomics research advances our understanding of the structure, organization and function of plant genomes.

Since 1996, funding for plant genomics has been the number one appropriations issue for the NCGA. The Plant Genome Initiative (PGI), a multi-agency program focused on structural and functional genomics, will help scientists, geneticists, and plant breeders

identify and utilize genes (from corn and other plants) that control important traits, such as nutritional value, stress tolerance, and resistance to pests. While the NSF will provide a significant level of funding for the PGI, USDA must increase its plant genomics funding, substantially, if we are to meet the minimum level of need. Further, USDA must begin a concerted effort in animal and microbial genomics.

The National Plant Genome Initiative, the National Plant Germplasm System, and the competitive USDA programs that support genomics research are critical to the long-term viability of U.S. agriculture as they will provide our growers with the tools to meet the challenges and demands of the 21st century. The NCGA, strongly, urges Congress to provide a \$5 million increase in ARS funding for plant, animal and microbial genomics research and a \$10 million increase for the USDA National Plant Germplasm System.

The NCGA, as part of the National Coalition for Food and Agriculture (C-FAR), recommends that federal investments in food and agricultural research be doubled over the next 5 years. This objective translates into roughly an increase of 15% per year of the research, extension and education in USDA and other federal agencies or about \$500 million increase per year for 5 years. This is to be net additional funding on a continuing basis that will complement, not compete with or displace existing research and farm programs.

This is a small investment compared to the \$1 trillion dollar size of our food and agricultural sector. However, we believe it is a strategic and wise investment that would: 1) benefit producers and consumers of all commodities and all states; 2) improve income opportunities for farmers; 3) contribute to the United States remaining the best fed country with the lowest share of income spent on food; 4) strengthen our competitiveness in the global marketplace, while achieving the proper balance with human and environmental needs; 5) enable producers to produce safer, healthier foods; 6) find new uses for agricultural products; and 7) enhance the protection of our natural resources.

Conservation Title

NCGA is committed to being good stewards of the land and leaving the environment in better shape than we found it. We have a commitment to our community to ensure that we have clean water and healthy, viable soil to ensure the land is productive for many years to come. The land that we farm has often been in our family for years -- or at least the community our families have been a part of for generations -- and it is where we raise our children, go to school, attend church and visit with our neighbors. We take responsibility for our farming activities and must do so with a keen eye towards conservation, productivity and marketing.

NCGA supports voluntary, incentive-based conservation programs that the past farm bills have created. We believe that flexibility in programs is essential for their widespread adoption, given local variances in conservation and water quality priorities, production practices, climate, soil type and many other factors. For several years we

have worked with other groups to promote conservation practices by: partnering with the National Conservation Buffer Council to enroll 2 million miles of buffer and filter strips by 2002; developing the Fishable Waters Act with fishing and conservation groups through the fishable waters coalition; collaborating as a part of the Conservation Technology Information Center to adopt Core 4 Conservation; and working through a large number of state corn grower association water quality initiatives and grower involvement in local watershed groups.

NCGA is interested in new conservation programs that assist growers in maintaining and/or undertaking new conservation practices in their farming operations. It is important that these programs be implemented on ground that is in production and will not become a set-aside program. As we look at broader Clean Water Act issues and regulations, we know that corn growers play an important role in maintaining a healthy environment, and our members strive to be good stewards of the land. We support programs that will work with our members in achieving these goals. Specifically, NCGA has been focusing on legislation that would provide environmental incentive payments for growers that are currently utilizing conservation practices on their ground or will undertake new practices that provide conservation benefits. The Conservation Security Act, a conservation incentive payment program, reaches these goals. NCGA believes that the Conservation Security Act, working with commodity programs and the past farm bill conservation programs, such as CRP, WRP, EQIP and Farmland protection, allow for a new focus on conservation.

The Conservation Security Act is unique in its approach because it recognizes an important part of conservation practice, adoption across the farming community – which is, that growers need financial and technical assistance in management of their operations based on conservation principles. This is not always as easy or as obvious as creating and managing a filter strip along the waterway that runs through your land. Rather, it is the intensive management practices that can become as much or more important in reaching our conservation goals, and which add to the costs and risks of the farming operation. These are the areas that need to be the focus of the next farm bill, where policymakers work with growers to find conservation practices that fit in with their management and stewardship of the land. There are many growers who are currently undertaking this effort, and they should be rewarded, not neglected, or penalized for their innovation. Again, any type program must maintain flexibility for local implementation to maximize participation. (CSA is projected to cost an additional \$3-4 billion annually in baseline spending)

In our support of locally led, voluntary incentive-based programs, NCGA has worked to promote these concepts through new programs and legislation, specifically, the Fishable Waters Act (FWA). NCGA believes the FWA would provide new opportunities for agriculture to work on a watershed basis with the wildlife conservation community and create new potential alliances between agriculture and the fishing community. The bill broadens the national commitment to voluntary actions and improves access to water quality programs and funds for farmers.

In order for this new program to work, there must be local people to work with our corn farmers and others in agriculture to install practices that benefit fish. USDA's Natural Resources Conservation Service (NRCS) has a good track record on voluntary incentive-based programs, as well as an extensive field staff network. Therefore, we in agriculture will be looking to NRCS as an important delivery mechanism of technical assistance to landowners for the purposes of fulfilling the fishery habitat plans. We support federal funding for NRCS conservation operations, to maintain and expand that structure as needed to help protect our nation's fishery habitat and other natural resource needs.

Regarding existing programs, those areas with the most environmental benefits should be the focus of any current programmatic changes, such as the Conservation Reserve Program and the National Conservation Buffer Initiative. Programs that take land out of production -- set-asides -- should focus on the most environmentally sensitive areas and not take whole farms out of production. This is why NCGA supported the Wetlands Pilot Project last year, which uses local flexibility to meet the environmental concerns facing a specific area of the country. Small wetland areas that join CRP land should be eligible for inclusion in the CRP -- it just makes sense to protect this land. And yet, due to stringent interpretations of the program, these lands were not eligible for enrollment. With regard to the CRP acreage cap, NCGA supports maintaining the CRP at 36.4 million acres and removing the Continuous signup acreage from the cap. This would allow for the full utilization of the CRP and maintain that environmental benefits be the focus of the continuous signup. Currently, the buffer strip initiative has nearly 1 million miles enrolled.

Another way to look at the adoption and implementation of conservation practices is through programs like Core 4 Conservation. The goals of Core 4 Conservation -- Better Soil, Cleaner Water, Greater Profits and a Brighter Future -- are based in common sense. Promoting these goals demonstrates our recognition of the inextricable link between profitability and environmental protection in modern agriculture. Improving our nation's soil and water resources - the raw materials of agriculture - enables producers to realize short-term benefits as well as long-term sustainability of their operations. The Core 4 Conservation approach helps producers realize productive, profitable land operations today and increases the likelihood that the operation can be passed on to their heirs.

Following the principles of Core 4 Conservation, producers implement a system of land treatment practices. This systems approach combines several appropriate conservation practices to maximize operation efficiency, minimize costly inputs and achieve optimal results, both in terms of environmental stewardship and profitability. Practices that may be used in a Core 4 Conservation system include conservation tillage, crop nutrient management, pest management (Integrated Pest Management), conservation buffers, water management (including irrigation, conservation and tile drainage), and other site-specific practices. Working with local advisors, producers select appropriate conservation practices and design a site-specific system that minimizes soil erosion,

enhances water infiltration and retention, filters pollution from runoff, and more efficiently manages inputs to increase profits.

Each of these programs mentioned provide an integral part of the overall conservation and environment/water quality objects. Federal programs provide financial resources and technical assistance to facilitate the adoption and management of conservation practices. Federal, state and local cost-share programs are essential for the greater benefit provided by these practices. Our members are engaged in farming as a livelihood and must maintain the ability to raise productive crops on their land and market their crops to maximize profitability. Corn growers depend heavily on foreign and domestic markets for utilization of their crops.

NCGA recognizes that regulatory activity is increasing regarding livestock operations and manure management and application. Regulatory actions in this area will have significant impacts on both our customers and the U.S. Corn Industry. The U.S. livestock industry is the number one consumer of domestic corn. Just as we are concerned that the corn production could shift to foreign countries, we are also concerned about livestock production shifts to foreign countries. Both areas must be given the tools and resources to comply with new regulations if we are to remain competitive in a global market place.

Recognizing that there are still significant gains to be made in water quality, we believe that our goals of clean water, productive land and a viable domestic market are attainable. NCGA believes that USDA is the primary federal government resource to assist growers across the country in attaining these goals. Whether it is through the technical assistance provided to growers for compliance with a myriad of government programs or the technical assistance for voluntarily adopting a conservation practice, USDA has the structure with local delivery units, to provide the assistance necessary for growers to continue their commitment to the land.

NCGA closely monitors the amount and speed at which new land comes into production in South America, specifically in Argentina and Brazil. As set aside and acreage idling programs in the United States increase, the rate at which land in South America is cultivated increases. The United States cannot maintain a competitive advantage if the U.S. regulatory activity forces up production costs, if the U.S. transportation infrastructure cannot deliver our goods to domestic and foreign markets in a cost-effective manner and if the United States drives our customers further from the point of domestic corn production. All of these elements must be considered when analyzing the impacts of domestic environmental regulatory activity.

Transportation

Presently, the U.S. enjoys a comparative advantage in corn production world wide. To maintain this advantage, we must have viable, efficient transportation systems. Currently, the per-ton cost for transporting corn in the United States is lower than in other countries. But as other countries gain the ability to transport their corn at lower

costs, they become more direct competitors to U.S. exports and domestic corn markets. The United States has allowed our river transportation infrastructure to deteriorate, thereby jeopardizing our position in world markets.

Unless we make improvements along the river, U.S. agriculture will pay the price. We face higher transportation costs as delays on the river increase. We also face the potential loss of domestic and export markets if our transportation costs do not allow us to remain competitive in these markets. The state of transportation infrastructure in the United States is a major concern for our nation's corn growers and for U.S. agriculture as a whole. We must continue to make investments that benefit U.S. agriculture, be those federal, state, local or private investments.

Changes in agricultural policy have made farmers more aware of international competitiveness and the need to maintain and expand foreign markets for U.S. agricultural products. Without continued investments in our transportation infrastructure, U.S. farmers are being placed at a severe disadvantage as foreign countries increasing their commitment to developing their agricultural export markets.

The message from corn farmers is simple – our future is determined by the price of corn. A strong transportation system means strong competitive corn prices. And a poor transportation system will mean low prices for corn and other commodities

Trade

As previously discussed, trade in corn and value-added products from corn are essential to the profitability of U.S. corn farmers. With strong leadership from this committee the last Congress approved Permanent Normal Trade Relations with China and passed sanctions reform that will preclude future sanctions on food, medicine and agricultural products. Nonetheless, we still have a long way to go before U.S. producers can reap the full benefit of their comparative advantage in crop production.

First, Congress must pass Trade Promotion Authority legislation to assure that the President and his administration are able to negotiate the best trade agreements for U.S. agriculture. According to a recent study by USDA's Economic Research Service the full elimination of agricultural tariffs, domestic subsidies and export subsidies would increase world agricultural prices 12 percent above their expected level. Eliminating tariffs, which distort both consumers' choice and producers' decisions, would account for 52 percent of the potential price increase. Real progress in market access will only occur through serious trade negotiation. Congress can best demonstrate commitment to trade liberalization by passing Trade Promotion Authority.

Second, U.S. agricultural producers should not be denied access to markets because of foreign policy objectives. Last year's sanctions reform did little to allow trade with countries that were previously sanctioned. We need access to all markets to be able to

assure all potential trading partners of our willingness to be a reliable supplier of grains and oilseeds.

Third, since it is highly unlikely that China will enter the WTO before June 3, it will be necessary for the President to grant China normal trade status. Since the past several weeks have challenged relationships between our countries, it will be especially important that the annual vote on Normal Trade Relations does not further delay the future opportunity for more open trade in agricultural products.

We realize that these three issues will not form the basis of the trade title of the farm bill. Nonetheless, each of these areas demonstrate the importance of trade policy to U.S. agriculture. Without strong support from the agricultural leaders in Congress, our message can be lost in the rhetoric of those who want to restrict trade.

Let me turn now to those areas that the committee will address that are of particular concern to the National Corn Growers Association: food assistance; the Export Credit Guarantee Program; the Market Access Program, and the Foreign Market Development Cooperator Program. These programs will be the key to expanding corn exports

Food Assistance

These programs provide needed humanitarian assistance and serve as the impetus for future trade development. NCGA recommends reauthorizing the food assistance programs under P.L. 480, Section 416 and Foreign Sales and Exchanges. One policy area that has long frustrated agricultural producers is the requirement that at least 25 percent of the gross tonnage of food assistance shipments be transported on U.S.-flag commercial vessels. NCGA opposes any form of cargo preference. It is time to abandon the antiquated Cargo Preference Act.

Export Credit Guarantee Program

The NCGA supports continued authorization of the Export Credit Guarantee Program (GSM-102), which offers credit terms up to three years, and the Intermediate Export Credit Guarantee Program (GSM-103), which covers longer credit terms. Under these commercial programs, the Commodity Credit Corporation guarantees payments due from foreign banks. Because payment is guaranteed, financial institutions in the United States can offer competitive credit terms to the foreign banks. The favorable credit terms facilitate sales of U.S. agricultural products to markets that desire to import our products but that are hindered by the lack of adequate credit.

GSM credit guarantees were instrumental in reviving lagging corn exports when our Asian customers experienced serious financial difficulties in the fall of 1997. The availability of credit allowed South Korea to resume importing U.S. corn and kept a dismal export situation from becoming worse.

NCGA encourages CCC to operate the programs with the greatest possible flexibility with regard to the type or amount of commodities purchased. Market potential, customers' preferences and the ability of foreign buyers to repay loans should dictate country and commodity allocations.

The Uruguay Round Agreement on Agriculture set the issue of export credit aside. The parties agreed to negotiate changes to the export credit programs in the Organization for Economic Cooperation and Development. Negotiations in the OECD have failed to resolve differences between the United States and other trading partners. NCGA would object to export credit guarantee changes within the context of the farm bill while international negotiations continue. If an international agreement is eventually reached, the United States can then modify our domestic policy to conform to our international commitments.

MAP and FMD

The Market Access Program (MAP) and Foreign Market Development Cooperator Program (FMD), both administered by USDA's Foreign Agricultural Service (FAS), help promote U.S. agricultural products – including corn and value-added corn products – in key overseas markets. The U.S. Grains Council represents corn, barley and grain sorghum producers in overseas markets using grower funds supplemented by funds from these two important market development programs.

This on-the-ground presence is vital. We need to be out there on the playing field everyday, constantly marketing the U.S. advantage. We've got to listen and learn what it is our customers want and need. We must continually educate foreign buyers about the superior quality and reliability of U.S. grains. And we have to be the people who these foreign buyers know and trust. This can't be accomplished from Washington – it's got to be done on the ground, in country, day after day. You can only build trust and lasting relationships through direct experience with your customer base – it's the same in any business venture.

These relationships are invaluable when we face challenges such as the recent concerns about biotechnology. Because of relationships the Council has built with industry and government leaders in Japan, USGC and the National Corn Growers Association officials were able to take immediate action when the StarLink controversy erupted last fall, addressing our customer's concerns directly and preventing the shutdown of this key market. And because of our presence and credibility in international markets, we've been able to reverse arbitrary biotechnology bans in places like Egypt and Columbia and we're working right now in places like Saudi Arabia, Algeria and Mexico to educate government and industry about biotech-related issues.

FMD funds also support our ongoing trade servicing efforts, enabling us to educate buyers worldwide how to buy quality products from the United States. And without FMD support, we couldn't operate our technical programs – the demonstration farms, feeding

trials and other initiatives – that have enabled us to build overseas markets for the last 40-plus years.

Funding for MAP and FMD has not kept pace with inflation. Consequently, U.S. export promotion programs are overshadowed by competitors' efforts. Funding for MAP is currently capped at \$90 million, while FMD has relied on curious appropriations language to assure continued funding. It is time for this committee to demonstrate a serious commitment to market development to enable U.S. producers to develop and maintain important markets.

NCGA supports H.R. 98, the Agricultural Market Access and Development Act of 2001. This bill will increase the funding cap for the Market Access Program to \$200 million; allow unexpended Export Enhancement Program funds to be used for market access or development programs; and establish minimum funding of \$35 million for the Foreign Market Development Cooperator program.

Conclusion

We believe we have identified very real problems with today's farm policy and proposed a policy that we believe addresses them. We also contend that this policy proposal is both less production and trade distorting than current policy, and offers this country's farmers a real safety net when it is needed most.

In conclusion, we must all recognize, and I hope you agree, that there is significant and important public benefit in the food security, wholesomeness and integrity of production resulting from the tremendously efficient food and fiber production machine of America's production agriculture sector. Of equal value and importance to our nation is the economic viability and activity of rural communities and the work ethic, integrity and commitment to community fostered in the domestic food production sector of our economy. In a global market and economy distorted at its best by world political issues and non-production-related economic factors like exchange rates and "Asian flu," there is significant public interest and need to protect the viability of agricultural producers in a manner that is market oriented, WTO compliant, environmentally responsible and responsive to the vast geographical and economical differences faced by our rural farm families and corn grower members.

Thank you for the opportunity to share NCGA's vision in this important effort.

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Mr. Michael R. Gorham, President, National Propane Gas Association, Grand Rapids, Minnesota
Mr. Ron Heck, Vice President, American Soybean Association, and Member, National Biodiesel Board, Perry, Iowa

Mr. Skip Horvath, President, Natural Gas Supply Association, Washington, DC

Mr. Lynn Jensen, Chairman, National Corn Growers Association, Lake Preston, South Dakota

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